MARKET UPDATE[1]

By Alexander Short

The "Market Update" panel covered questions relating to the current state of the market.

- **What is current state of the market?** For larger managers, fundraising is slower but still robust. A slower exit environment is influencing borrowers' desire to keep their subline in place for longer, but lenders are offering shorter tenors, often 364 days, or a single two year maturity, leading to requests for (committed or uncommitted) annual extensions. The panel is carefully watching Basel 3.1, remarking on increased interest in rating facilities. Generally, managers are optimistic about market outlook, unlike last year. Pricing has widened 20-60bps, and on NAV 40-45% on LTV is now more typical, as there is less risk appetite. There is also an influx of new players – alternative providers and banks opening new desks, plus regional banks in the US returning to the market in numbers.

- **Reactions to interest rates and inflation?** For a while there was less liquidity, but borrowers aren't changing their strategies – they need their sublines. This has led to pricing increases, but borrowers have accepted this. Given fundraising is slower (up to 24 months) the banks have seen facilities been put in place initially, but then not reaching full size until a year or two later, often with additional banks. There was also the view that there were generally more concentrated investor bases, with some investors being accepted who wouldn't have previously been (e.g. UHNW individuals). This goes hand in hand with an update in SMA financing.

- **Fallout from regional banking crisis – has the market recovered?** The view from the panel was that SVB moved over to HSBC with minimal disruption, and business is back to normal generally, other than pricing which has shot up 25-50bps.

- **Challenges for 2024?** The roll-out of additional regulations that constrain liquidity at banks is the biggest challenge. Fundraising will continue however, so the gap between supply and demand will cause pricing to increase. On the positive side, though managers will hold assets for longer, alignment between GP and LPs is getting closer about need for NAV financing, e.g. having appropriate optionality in LPAs is more common. The development of non-bank demand to meet constraints due to banking regulations will be a big focus.

[1] Panelists included Mark Alexander-Dann (ANZ); Mike Durnin (Ares Management); Vanessa Lawlor (Maples Group); Keenan McBride (Morgan Stanley); Emily Rose (HSBC); and Saniyé Tipirdamaz (Mourant).